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Approved by:

William L. Brant
U.S. Embassy

Prepared by:

David Williams, Benjamin Juarez, Dulce Flores, Salvador Trejo and Gabriel Hernandez

Report Highlights:

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Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
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Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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MEMBERS OF MEXICAN CONGRESS SEEK TO DECLARE STATE OF EMERGENCY FOR RURAL AREAS

A reported 62 newly-elected members of Mexico's Lower Chamber of Congress representing rural areas met recently with the National Campesino Confederation (CNC) to discuss legislative objectives for the upcoming (September 1 – December 15, 2003) session of Congress. The group noted that the benefits of the North American Free Trade Agreement (NAFTA) have failed to reach the estimated 3.5 million Mexican subsistence farmers and proposed declaring a state of emergency in rural areas. Other recommendations included the revision of the agriculture chapter of the NAFTA, an initiative to protect and improve the competitiveness of certain agricultural sectors, and a number of initiatives to improve the quality of life in rural areas, all of which are similar to the provisions of the April 28, 2003, National Agriculture Agreement. (Source: *El Universal*, 7/20/03)

MEXICO AND THE UNITED STATES ARE NEGOTIATING A POULTRY SAFEGUARD

The governments of Mexico and the United States are negotiating details on market access and the enforcement of sanitary measures, in order to finish the definitive special safeguard on chicken legs and quarters imported from the United States. When market access to the U.S. market is available, Mexico would be able to export US\$60 million dollars annually in chicken meat and US\$24 million dollars in fresh eggs. (Source: *El Financiero and Reforma*, 7/16/03)

GOM GUARANTEES SANITARY REVISIONS FOR IMPORTED MEAT

The GOM, through the National Service of Sanitary, Innocuousness and Agricultural Quality (SENASICA), affirmed that they are not putting Mexicans' health at risk and discarded the idea that there are apathetic attitudes in that department regarding the inspection of imported meat. This declaration is in response to repeated complaints by Mexican cattlemen, feeders and pork producers who have said that imports of U.S. meat arrive in Mexico with serious quality deficiencies and are a risk for the public health. (Source: *EL Financiero*, 7/16/03)

THE GOM DECENTRALIZES COMMERCIALIZATION SUPPORTS

The supports to commercialize grains will have a more equal distribution which will favor all the states in Mexico, said Rodolfo Farias, head of ASERCA, a decentralized administrative body within SAGARPA providing commercial support to farmers. Farias acknowledged that

approximately 600,000 producers would obtain these subsidies in 2003 compared to 300,000 that received it previously. The distribution will extend to all farmers who market their crops of corn, wheat, sorghum and other seven basic grains in the country. (Source: *El Financiero*, 7/18/03)

THE AGREEMENT ON AGRICULTURE, MILESTONE OF THE AGRICULTURAL POLICY

According to Secretaries of Economy, Fernando Canales-Clariond, and Agriculture, Javier Usabiaga, the agricultural policy is dynamic, able to generate good results and compete successfully in the globalize world. Secretary Canales-Clariond emphasized that the National Agreement on Agriculture (ANC) represents the central element of change in this sector. The ANC has the potential to increase public and private investment in agricultural production, he said. Secretary Usabiaga said that in spite of the difficult international economic environment, Mexico registered a surplus in the agricultural trade balance with the United States. Statistics quoted are: US\$58.8 million dollars in the first four months of 2003 versus a deficit of US\$139 million dollars in same period the previous year. Canales-Clariond, however, admitted that during the period from 1993 to 2002 bank credit to the agricultural sector decreased 76.9 percent, with credit to the livestock sector specifically decreasing 86.6 percent. (Source: *El Financiero*, *La Jornada*, *Excelsior*, and *El Economist*, 7/16/03)

UNFAIR U.S. PHYTOSANITARY PRACTICES

The Director of the National Service of Sanitary, Safety and Quality of Agricultural Foodstuffs (SENASICA), Javier Trujillo, recognized that even though Mexico has responded in a timely manner to U.S. requests to open Mexican markets -- which are closed due to sanitary constraints -- the United States has taken several years to make similar decisions in response to Mexico's requests. Trujillo added, "The United States, through the Office of Management and Budget at the White House, implemented a mechanism to assess the socio-economic impact before authorizing market openings to specific Mexican commodities and, with this process it could take years to define a position." He said that Mexico has claimed the illegality of these procedures before the WTO, based on what is established in the sanitary and phytosanitary (SPS) measures chapter of NAFTA. In Mexico, the administrative authority at the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuff (SAGARPA) makes the SPS decisions, but, he added, "there is an absence of a legal process like in the United States; perhaps the idea of drafting a law is something that deputies in the Mexican Lower House should be thinking of." (Source: *El Financiero*, 7/22/03)

FED NUMBERS IN THE UNITED STATES REDUCE ECONOMIC PROJECTIONS

The U.S. Federal Reserve (FED) estimated that the U.S. economy would grow between 2.50 and 2.75 percent this year. The FED also stated that the administration of President George W. Bush generated a historical deficit of US\$455 billion dollars. This information underscored the difficulty that Mexico has in achieving its growth goal of 3.0 percent in its Gross Domestic Product in 2003. Francisco Gil Diaz, Treasury Secretary, recognized that his ministry will have to evaluate the new conditions, while the governor of the Bank of Mexico, Guillermo Ortiz, stated that "the Bank of Mexico will adjust" its projection of economic growth, which currently is around 2.4 percent. (Source: *EL Financiero* and *La Jornada*, 7/16/03)

PROFITS ON GRAIN PRODUCTION WILL INCREASE

Due to the new support called "ingreso objetivo" (target price), the income per hectare or ton that Mexican commercial growers will receive this year will be higher than their U.S. competitors. For example, a Sinaloa corn grower will receive a target price of 1,759.12

pesos per metric ton (roughly US\$176/MT), which is 37 percent higher than the price that a U.S. corn grower will receive (1,285.2 pesos/MT or US\$24/MT). Juan Carlos Anaya, director of the private consulting firm Agricultural Markets, elaborated on a comparative analysis of income in corn, wheat and sorghum between U.S. and Mexican growers. With only a few exceptions, the income of Mexican growers of these grains will be higher than their counterparts in the United States. Anaya recognized that Mexican farmers face deficiencies on transporting their crops, but their higher income should compensate for these deficiencies. (Source: *El Financiero*, 7/15/03)

SPECIALIST SAYS TRANSGENIC SEEDS COULD CONTAMINATE NATIVE SEEDS

According to Patricia de la Rosa-Peñaloza, professor at the Agricultural Popular Autonomous University of Puebla, in spite of the benefits that transgenic seeds can generate by increasing the level of proteins or controlling pest damage in some cultivations, genetic modification is harmful if it is made in the center of origin of the seeds. In biotechnology there are two positions: those who argue that the best solution is to reduce world hunger; and those who consider that this technology would create more problems than solutions. According to a report published in United States by the International Service for the Acquisition of Agri-biotech Applications (ISAAA), during 2002, 58 million hectares were cultivated with transgenic seeds. This represents an increase of 12 percent compared to 2001. The preliminary document of ISAAA shows that countries like the United States, Argentina, Canada and China, lead this trend as farmers of those countries, which are major world grain producers, show their preference of using genetically modified seeds. (Source: *El Financiero*, 7/17/03)

CARGILL OPERATES VERACRUZ GRAINS TERMINAL

Cargill, the transnational company, has operated the grain terminal in Veracruz (TGV) since January 2003. Approximately 55 percent of Mexico's grain imports pass through this facility. Producers of wheat, corn flour and oil, however, are not happy with the presence of Cargill and their operation of the TGV. Producers consider that Cargill is creating a monopoly, because, in addition to operating the TGV, it imports and exports grains and purchases domestic crops. They said Cargill can give preferences to its own ships, instead of those of other trade companies, and can bring shipments in at lower prices, which is an unfair advantage over its competitors. They also pointed out that obtaining the concession of TGV was done through an obscure process but was validated by the Federal Commission of Economic Competition. (Source: *El Financiero*, 7/17/03)

MEXICO, AN ACTIVE ACTOR IN THE WTO COMPLAINTS ON ILLEGAL TRADE

The WTO has seven complaints from Mexico regarding antidumping measures and countervailing duties that adversely affect Mexican trade. There are currently six cases pending against Mexico in which they are accused of establishing tariff measures that affect bovine meat, live pigs, rice, Nicaraguan black beans, and other non-agricultural items. Meanwhile, there is an active panel, which is revising a complaint that the United States filed against Mexico in the telecommunications sector. The origin of this legal suit is by a U.S. company that accuses "Telefonos de Mexico," the main Mexican telephone company, of being a monopoly. (Source: *El Financiero*, 7/17/03)

INSUFFICIENT FUNDS FOR AGRICULTURE

Mariano Ruiz-Fuentes, from Grupo GEA, a private economic group, confirmed that resources destined for agriculture have not been sufficient due to the lack of support from the commercial banks, which consider agriculture to be a high-risk activity, and to insufficient

funding from development banks. In 2000, approximately \$3.56 pesos (US\$0.34) for every \$100 were destined for credit; now, in May 2003, resources have decreased to \$2.50 pesos (US \$0.24). The only possibility of having commercial banks earmark resources for agriculture is through links or joint ventures with limited object financial agricultural associations, like SOFOLES – a linkage which is being incorporated into the design of Financiera Rural, the rural countryside bank. (Source: *Economista*, 7/17/03)

MICHOACAN PROVIDING THE WORLD WITH MEXICAN GUACAMOLE

Despite the economic recession the United States has been through, Simplot, a U.S. funded company based in Michoacan, is forecast to maintain last year's export levels of Mexican Hass avocado paste or "guacamole" to its main foreign market. Last year, exports reached 16 million pounds of processed product, which represents a profit of more than US\$12 million dollars. Official data from the Secretariat of Development of Michoacan state reveals that the annual production of "guacamole" is around 60,000 MT and the main export markets are the United States, European Union, Asia and Latin America. (Source: *El Financiero*, 7/17/03)

JUNGLE LAW IS TO REGULATE GENETICALLY MODIFIED ORGANISMS?

Despite the imminent publication of a proposal of a Mexican Official Norma (NOM) to regulate the importation and release to the environment of genetically modified organisms (GMO) for commercial purposes, the lack of a Biosecurity Law is notorious. Currently, the Federal Commission for Regulatory Improvement (COFEMER) is waiting for input from the Secretariat of Environment and Natural Resources (SEMARNAT) and from the Secretariat of Agriculture (SAGARPA), regarding the comments on specific chapters of the original proposal so it may proceed with its publication in the Diario Oficial (Mexican Federal Register). While approval of the proposed NOM, which would allow the use of transgenics in Mexico, is the final stages, the biosecurity bill is "frozen" in the Mexican Lower House even though the Mexican Senate approved it recently. (Source: *La Jornada*, 7/16/03)

BETTER SUPPORT FOR PRESIDENT FOX

After a series of high-level meetings held in Los Pinos, national counselors from the political party PAN, said that President Fox admitted that important structural changes within his cabinet would take place soon. The counselors admitted that internal disputes within the presidential teamwork are occurring and that they would demand the dismissal of certain public servants prior to the next message to the nation by President Fox. Among the candidates included on the list are: Javier Usabiaga, Secretary of Agriculture, and Victor Lichtinger, Secretary of Environment. Moreover, the counselors said, "the time to support President Fox with politically experienced people, not marketing and administrative experts or image creators, is here." (Source: *El Financiero*, 7/22/03)

THE SUGAR INDUSTRY RECOVERS IN 2002/03

The General Secretary of the Sugarcane Workers Association, Francisco Castro, indicated that there was good sugar production for MY 2002/03. The industry had a strong recovery because high fructose corn syrup imports decreased from 350,000 MT in 2001 to 10,000 MT in 2003 due to the 20 percent tax on beverages using sweeteners other than sugar. This situation helped the industry to increase sugar prices in the domestic market from \$240 pesos/50 kg to \$280 pesos/50 kg (US \$22.96/50 kg to \$26.80/50 kg). Despite this good news, Mr. Castro deplored the fact that the \$400 million pesos (US\$38,277,511 dollars) approved by the GOM to finance producers to increase and renew sugarcane production, and

buy necessary inputs for next production cycle, have not been released yet. (Source: *Financiero and Reforma*, 7/21/03)

THE GULF OF MEXICO AT RISK OF ECONOMIC DISASTER DUE TO POLLUTION

According to a local newspaper article, the contamination of the Gulf of Mexico is being caused by a large quantity of toxic substances that it receives from the United States' hydrological basins, mainly the Mississippi River. The river discharge totals 1.6 million metric tons of nitrogen and approximately 88,000 tons of dangerous industrial compound annually. This pollution has become a serious risk that could cause an economic disaster. (Source: *El Financiero*, 7/18/03)

PROSPECTS FOR ANOTHER FREE TRADE AGREEMENT

Under a proposed trade agreement between Mexico and Japan, the Mexican livestock sector will request the Japanese to double their pork meat purchases, said Moises Ceja, Vice President for Foreign Trade at the National Farming Council (CNA). "It's impossible to sign a Free Trade Agreement within the next three months, because of time constraints for negotiations and, because we don't know the priority list of the Japanese yet," he said. Consequently, both countries have agreed to sign a temporary agreement or a "letter of intent" to be enforced until a Free Trade Agreement is implemented. Meanwhile, the Japanese farming and livestock sectors proposed three tariff schemes for products to be negotiated. Those products with tariff rates above 90 percent would be assigned a 60-percent maximum and 45-percent minimum; those products with rates under 90 percent will be given a 50-percent maximum and 30-percent minimum; and, those items less or equal to 15 percent would be 40-percent maximum and 25-percent minimum. (Source: *El Universal*, 7/15/03)

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO CITY

Number	Title	Date
MX3095	Hot Bites Issue #35	7/15/03
MX3096	Unilateral TRQ for Ducks, Geese and Guinea Fowl for 2003	7/17/03

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To reach us at FAS/Mexico City:

AgMexico@usda.gov and/or ATOMexico@usda.gov